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MONTICELLO PINK TOMATO GROWERS, INC. MARKETING EXPANSION IN SOUTHEASTERN ARKANSAS

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PREFACE

This study was initiated after a request in 1977 by the Monticello Pink Tomato Growers Association of Monticello, in southeastern Arkansas, through their Cooperative Extension Service. The association's directors asked for the study to help them determine if it is feasible for them to expand and rebuild their auction marketing facilities that at the time of the study served some 250 tomato growers in the area. A staff member of the Economics, Statistics, and Cooperatives Service (then Farmer Cooperative Service) visited the area to gather information for this study.

Assistance of Arkansas Extension Service and University of Arkansas personnel in connection with this study is gratefully acknowledged.

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MONTICELLO PINK TOMATO GROWERS, INC.--ARKANSAS
MARKET EXPANSION IN SOUTHEASTERN ARKANSAS

Gilbert W. Biggs
Agricultural Economist

Fresh tomato sales in Arkansas averaged $8 million during the period 1967-1976 (table 1). In 1976, about 3,700 acres of tomatoes contributed $11.2 million to the income of Arkansas farmers.

Between 1973 and 1976, tomato plantings increased from 2,800 to 3,700 acres, or almost one-third. One would expect Arkansas tomato acreage to continue to expand, given those figures.

About 20 percent of the acreage is usually planted in the northwest, centered in Crawford County. The remainder is produced in the southeast, in Bradley, Drew, and parts of five adjacent counties 1/. There are about 100 active growers in the northwest and more than 1,000 in the southeast.

SOUTHEASTERN ARKANSAS PINK TOMATO INDUSTRY

Growers in the southeast take great pride in producing a vine-ripe tomato. The tomatoes have a translucent skin and are pink when ripe, rather than red 2/.

Acreage devoted to tomatoes is usually small and family labor is utilized to a great extent in this labor-intensive crop. The plants are started in hot houses and transported to the field as soon as weather permits. They are staked and tied, pruned, and irrigated. They are picked vine-ripe, packed in 20-pound paperboard boxes (20 lb. lugs) and trucked to auction markets.

1/ Price, Carter and Roy E. Lambert. Tomato Marketing in Arkansas: Past, Present, and Alternatives for the Future, MP 138, University of Arkansas Ag. Exp. Station, Fayetteville, March 1973. p. 1.

2/ Bateman, Lonny and Carter Price. Picking Costs to Arkansas Tomatoes, Univ. of Ark. Ag. Exp. Station, October 1969. p. 3.

Table 1--Arkansas Tomatoes; Acreage, Yield, Production, Price and Value

Year	Acres Harvested	Yield per acre	Production	Season av. price per cwt.	Value of production
		cwt.	1,000 cwt.	Dollars	$1,000
1967-76 av....	3,300	110	362	22.22	8,044
1972.....	3,800	110	418	22.80	9,530
1973.....	2,800	110	308	32.37	9,970
1974.....	3,000	146	437	21.92	9,579
1975.....	3,200	96	307	37.72	11,580
1976.....	3,700	118	437	25.59	11,183

Reproduced from 1976 Agricultural Statistics for Arkansas, SRS, USDA, Little Rock. Report Series 237, July 1977.

Marketing Season

Under normal circumstances, it appears that the current season (appendix A, figure 1) from early June to mid-July is the most logical time to market Arkansas tomatoes. Its principal competitors are California and Florida, which account for about two-thirds of the U. S. supply during that period. However, California producers are at a disadvantage because of their distance from eastern markets. (In 1977, Florida growers were hit by freeze. They replanted, causing their marketing season to overlap with the Arkansas season. The result was a disasterous drop in prices for Arkansas growers.)

Present Marketing Structure

About 80 percent of the tomatoes of southeastern Arkansas are sold through three auction markets. Seven percent are sold by grower-packers, and the remaining 13 percent are sold through broker-packers (appendix B, table 1).

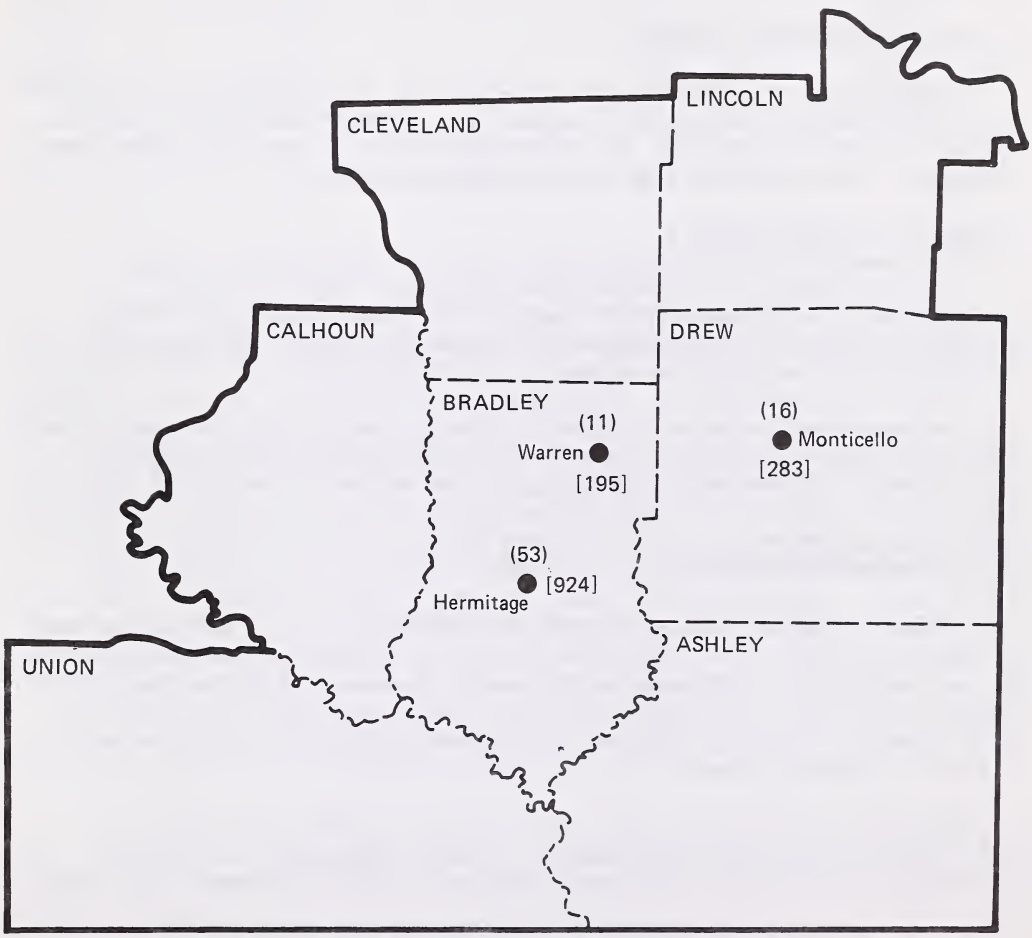
Auction Markets

The three auction markets are at Hermitage, Monticello, and Warren (figure 1). Two are cooperatives.

Hermitage--The Hermitage cooperative auction market handled 924,403 lugs (20 lbs.) of southeastern Arkansas tomatoes in 1976, about 53 percent of the region's total (appendix B, table 1). The association owns and operates all facilities, including auction shed, buyers' sheds, and a chain for growers who do not want to grade and pack their tomatoes on the farm. In the latter case, samples are taken to the auction shed and displayed to buyers.

Figure 1--Counties in the Southeast Arkansas tomato industry, 1977

1976 Crop
( ) Percent sold at auction
[ ] Thousand 20 lb. lugs sold at auction



Monticello--The Monticello auction market handled 283,000 lugs of southeastern Arkansas tomatoes in 1976, about 16 percent of the total (appendix B, table 1). The market is operated by Monticello Pink Tomato Growers, Inc., a cooperative whose 250 members are located mostly in Drew County. The cooperative leases the market facilities, which are located in the town of Monticello.

Warren--The Warren market, a noncooperative, handled 194,900 lugs of tomatoes in 1976, or about 11 percent of the volume in southeastern Arkansas (appendix B, table 1). The Warren market facilities were constructed by Warren businessmen and are part of the county fairgrounds.

Direct Buyer-Broker Markets

Grower-packers accounted for 7 percent of the southeastern Arkansas 1976 tomato volume (appendix B, table 1). Brokers-packers in Warren handled about 7 percent of the volume and an additional 6 percent was handled by broker-packers at the Hermitage market.

Prices At Auction Markets

Price and Lambert 3/ found that that there tended to be a relationship in prices at first sale in federally inspected fresh marketed tomatoes. This applied in competing areas regardless of existing market structures (appendix A, figure 2).

Prices of southeastern Arkansas tomatoes per 20 lb. lug tend to open highest at the beginning of the season and decline as the season progresses. It reaches a low point at the end of the season. For instance, on June 4, 1976 the prices for U. S. No 1's were $10.70-$11.20 (appendix B, table 2). July 1 prices were $5.00-$5.20 and by July 21 had fallen to $3.00-$3.40.

Season weighted average prices for tomatoes at the three Southeast Arkansas Auctions show Monticello prices to be lower than Hermitage and Warren (table 2). This may be the reason growers using the Monticello auction think that new facilities would improve prices by attracting more buyers. Hermitage offered the highest prices of the three markets and had the most buyers.

3/ Price, Carter and Roy Lambert. Tomato Marketing in Southeast Arkansas, Univ. of Ark. Ag. Exp. Station, MP-153. December 1975. p. 5.

Table 2--Season weighted average prices, three southeastern Arkansas markets, 1976

	MARKETS		
GRADE	HERMITAGE	MONTICELLO	WARREN
	----------price per 20 lb. lug----------		
NO 1	$4.91	$4.46	$4.90
NO 2	3.97	3.42	3.73
NO 3	3.32	2.76	2.84
COMB	4.22	3.58	3.86
UNCL	3.35	2.56	2.68
RIPE	3.60	3.47	3.36

Reproduced from Carter Price, Joe Music, et al. Dept. of Ag. Econ., Univ. of Ark. Memo Material. Jan. 18, 1977.

Proposed Facilities for Monticello Pink Tomato Growers, Inc.

In mid-July of 1977, a staff member of the Economics, Statistics, and Cooperatives Service (then the Farmer Cooperative Service), met with directors and the manager of the Monticello cooperative to initiate a study of the cooperative's facility needs. Also present were Larkin Brown and an assistant from the Drew County Extension Service, Dr. Roy E. Lambert of the Arkansas Extension Service, and Dr. Carter Price and Joe Musick of the University of Arkansas Agricultural Experiment Station.

The board did not consider a merger with another cooperative a desirable solution to their space and facilities problems. They were nearly unanimous in their desire to move to a new location but did not think grower-members would put up equity capital for new facilities. Only one board member wanted to remain at the present location.

Also, there was a strong desire by the board to continue selling by auction rather than through a broker, or by some other means.

The ESCS staff member visited other tomato marketing facilities in the area and discussed the situation with research and extension service personnel, tomato buyers, brokers, other industry leaders, a banker, and grower-members.

A 5-month delay in supplying financial statements to ESCS was due to an audit of the association's books preparatory to applying for cooperative tax-exempt status. Although the association had been formed more than 20 years ago, it had never requested exempt status from the Internal Revenue Service. After clearing with the tax authorities and paying taxes on retained patrons' equity, the board decided to follow

the requirements of a tax exempt cooperative. Among other things, this requires that at least 20 percent of members' savings from operations be returned to patrons each year. This will somewhat limit the amount of Monticello's retained equity for new facilities or operating capital, compared to the past when no patronage refunds were distributed.

Present Facilities

The cooperative's present facilities are on the east side of Monticello and most growers have to drive through the heart of the community to get there. The association was organized in 1957 and built its facilities on land owned by an individual who said it could use the land to sell tomatoes as long as it desired. However, after the death of the owner, the heirs decided to charge rent. The association now pays $3,000 per year, to be adjusted yearly according to the Consumer Price Index. The association also has the option to renew the lease on a yearly basis until 1980. It was under these circumstances that the board begin thinking of buying land and constructing new facilities.

Present facilities consist of an auction shed, a large buyers' shed, two small buyers' sheds and a storage shed that includes the association's office. The auction and buyers' sheds are open and constructed of wood and metal. All have wooden docks and those at the auction sheds are at heights convenient for pickup trucks. Buyers' sheds will accommodate pickups on one side and tractor trailers on the other.

Operations

Membership is made up of about 250 active tomato growers. The typical grower rises early, picks his tomatoes, puts them in field crates and takes them to a shed located on the farm where they are graded and packed into 20 lb. lugs. The lugs are hauled immediately to Monticello for sale.

The association's role is to provide tomato auction facilities. An auction shed accommodates 20 sellers' pickup trucks, which are backed up to assigned stalls at the shed. Sellers place a lug of each grade of tomatoes on a display table for inspection and grading.

When the auction begins, buyers bid on tomatoes starting with stall No. 1. More than one purchaser may bid on the tomatoes in each stall and when the first stall's tomatoes are sold, the auctioneer proceeds to stall No. 2. This procedure continues for all 20 stalls. Meantime, growers whose tomatoes have been sold take their tomatoes to the buyers shed to be unloaded. Other growers waiting in line are assigned to the vacated stalls.

Buyers must rent their stalls and usually take 5 or 6 of them to have enough space to assemble and load purchases on tractor-trailers. One side of the buyers' shed has flooring, the proper dock heights to accommodate pickup trucks while the other has the proper dock height to accommodate tractor-trailers.

Growers are paid when they unload their tomatoes with the buyer. This seemed to be a strong point in favor of the auction market, compared to broker sales that might require a wait for payment.

The association's principal source of income is from the sale of tomato boxes, or lugs and wrapping paper to growers. The lugs are marked with the association's name and as long as they are sold through the association, there is no additional charge for the auction.

If a grower does not buy his lugs from the market through which he sells his tomatoes, he is charged 10 cents per lug for the auction service. This practice is followed by all three auction markets in the area and tends to discourage a grower from buying lugs at one market and selling through another.

Site Selection for New Facilities

Present auction facilities are in Monticello whereas most of the growers are west, so it is necessary for growers to drive through town to reach the facilities. There is not adequate space for about 200 trucks arriving each day to line up for their turn at the auction shed. Also, there is not enough space for the pickups to maneuver.

Most produce now moves by truck so locating near a rail siding does not seem to be essential unless the association plans to go into handling bulky items that must be shipped by rail, such as fertilizer. However, rail transportation may assume a more important role in the future. Therefore, it would be desirable to locate where rail access could be available. They should also be located on a good black top road.

The board seemed to feel that the facilities should be located near Monticello. A location to the west would save most growers from having to drive through town. The majority of the association's members live near Monticello, and do most of their business there, including banking and purchase of farm supplies.

The board of directors is currently considering purchase of 20 acres of land at $3,000 per acre or a total of $60,000. An additional $6,000 is necessary for a right-of-way, bringing the total cost to $66,000, or $3,300 per acre. An individual will purchase 10 acres of the land at that price, leaving the association with the 10 acres it desires. The property is west of Monticello near a black top road. City utilities could be extended to it.

Statement of Operations and Margins

In connection with their application for tax exempt status, the directors engaged auditors to compile financial statements for the fiscal years ending October 31, 1973-1977. These statements were summarized and used as a basis for projecting the financial position of the association from 1978-80 (tables 3 and 4).

Table 3--Monticello Pink Tomato Growers, Inc--Statement of operations and margins for the years ended October 31, actual 1973-77 and estimated 1978-80

Item	Actual					Estimated		
	1973	1974	1975	1976	1977	1978	1979	1980
	Dollars							
PURCHASES BY PATRONS								
Boxes, wrapping paper and supplies	106,143	231,289	146,160	229,048	210,170	226,660	276,332	334,824
Less: Cost of purchases by patrons	83,140	189,228	106,264	157,242	158,940	170,349	207,285	250,688
Gross margin on patrons' purchases	23,003	42,061	39,896	71,806	51,230	56,311	69,047	84,136
OTHER OPERATING REVENUE								
Rent & drink box	67	209	-	2,051	3,580	1,426	1,547	1,669
Interest	-	-	-	810	4,075	1,193	1,294	1,396
Total other operating revenue	67	209	-	2,861	7,655	2,619	2,841	3,065
Gross margins & other revenue	23,070	42,270	39,896	74,667	58,885	58,930	71,888	87,201
GENERAL & ADMINISTRATIVE EXPENSE								
Advertising	390	125	339	1,575	836	785	853	919
Inspection service	4,649	6,467	5,852	7,975	6,938	6,980	7,574	8,168
Dues and other subscriptions	280	266	306	110	997	466	506	544
Insurance	977	1,920	2,174	2,867	4,155	2,939	3,189	3,439
Supplies	389	1,204	697	753	1,022	989	1,073	1,158
Rent	705	555	250	915	2,459	3,242	3,504	3,787
Salaries	1,665	1,232	2,141	2,275	12,704	15,000	15,000	15,000
Labor	4,498	8,390	11,223	8,411	6,443	9,217	10,002	10,786
Repairs and maintenance	99	321	1,501	752	692	815	884	954
Taxes and licenses	577	763	679	794	1,661	1,077	1,169	1,260
Utilities	820	744	730	1,111	1,336	1,134	1,231	1,328
Depreciation	3,093	3,093	3,093	3,093	3,110	3,110	3,110	3,110
Miscellaneous	1,100	967	2,237	3,376	3,157	2,619	2,842	3,065
Professional fees	-	-	90	-	3,275	735	797	860
Interest	-	182	1,281	-	-	349	379	408
Total General & Administrative expense	19,242	26,229	32,593	34,007	48,785	49,457	52,113	54,786
Operating margins before income taxes	3,828	16,041	7,303	40,660	10,100	9,473	19,775	32,415
Income taxes	889	4,021	1,615	10,325	-	-	-	-
NET OPERATING MARGINS	2,939	12,020	5,688	30,335	10,100	9,473	19,775	32,415

Table 4--Monticello Pink Tomato Growers, Inc. balance sheet with actual October 31, 1973-77 and estimated October 31, 1978-80

Item	Actual					Estimated		
	1973	1974	1975	1976	1977	1978	1979	1980
	Dollars							
ASSETS								
CURRENT ASSETS:								
Cash on Hand and in Banks	42,473	64,044	47,495	85,429	92,309	95,717	105,405	117,706
Inventories	5,436	50,935	26,411	29,983	37,464	33,694	37,784	42,371
Total Current Assets	47,909	114,979	73,906	115,412	129,773	129,411	143,189	160,077
PROPERTY, PLANT AND EQUIPMENT								
Buildings	29,000	29,000	29,000	29,000	29,000	29,000	29,000	29,000
Fixtures and Equipment	1,350	1,350	1,350	1,350	1,477	1,477	1,477	1,477
	30,350	30,350	30,350	30,350	30,477	30,477	30,477	30,477
Less: Accumulated Depreciation	3,093	6,186	9,279	12,372	15,482	18,592	21,702	24,812
Net Property, Plant and Equipment	27,257	24,164	21,071	17,978	14,995	11,885	8,775	5,665
OTHER ASSESTS (Option on Land)	-	-	-	-	100	-	-	-
TOTAL ASSETS	75,166	139,143	94,977	133,390	144,868	141,296	151,964	165,472
LIABILITIES AND STOCKHOLDERS' AND PATRONS' EQUITY								
CURRENT LIABILITIES								
Accounts Payable	-	50,935	-	-	4,031	12,328	13,825	15,503
Accrued Payroll Taxes	77	10	12	13	405	111	120	130
Liability for Redemption of Stock Certificates	-	-	-	-	381	-	-	-
Income Taxes Payable	889	4,910	6,525	16,850	14,302	-	-	-
Accrued Interest Payable	-	-	-	-	1,625	-	-	-
Patronage Refunded Payable in Cash	-	-	-	-	1,053	1,895	3,955	6,483
Total Current Liabilities	996	55,855	6,537	16,863	21,797	14,334	17,900	22,116
STOCKHOLDERS' AND PATRONS EQUITY								
Capital Stock:								
Preferred stock, Par Value $5 Nonvoting, 4% Noncumulative Issued and Oustanding	18,110	15,810	15,910	14,305	14,095	14,720	13,580	13,030
Common Stock, par Value $1 Issued and Outstanding	377	377	377	326	350	250	250	250
Retained Margins, Unallocated	55,713	67,101	72,153	101,896	104,414	104,414	104,414	104,414
Patrons' Certificates of Equity	-	-	-	-	4,212	7,578	15,820	25,932
Total Stockholders and Patrons' Equity	74,200	83,288	88,440	116,527	123,071	126,962	134,064	143,626
TOTAL LIABILITIES AND EQUITIES	75,166	139,143	94,977	133,390	144,868	141,296	151,964	165,742

Since the association's chief source of income is from the sale of lugs, wrapping paper, and supplies to growers, it was necessary to project lug sales to patrons in order to estimate the gross margins for 1978-80.

Needs As Outlined By Board of Directors

1. The new facilities should be on 10 acres to allow for expansion.

2. The auction shed should be enlarged from 20 to 40 stalls.

3. Buyers' sheds should be enlarged to accommodate 12 buyers instead of 6.

4. Warehouse space should be doubled.

5. Cold storage facilities should be added for holding tomatoes overnight.

6. A chain should be installed to pack tomatoes for growers who don't have time to do it on the farm.

The board decided at subsequent meetings that items 5 and 6 could be eliminated. Construction of cold storage facilities at $40 per square foot would be prohibitive due to short-term usage. Also, since most of the growers have about 2 acres, they prefer to grade and pack their tomatoes on the farm. They utilize family labor for this task.

Since the board did not wish to consider a merger or a different method of selling, those options are not addressed.

Remain at Present Location

The directors have the option to renew the lease on the present property through 1980. Then they must leave.

Although growers complain about overcrowding and lack of modern facilities, the wood and metal buildings seem serviceable until the end of the option period.

From 1973-76, Monticello's share of sales in its tomato producing area has varied between 15 and 18 percent. It is possible that the fulltime manager recently hired may be able to increase this percentage and reduce certain operating costs in the future.

Size Options Selected

Three different size options were selected. Estimates for construction costs per square foot were received from three Arkansas contractors familiar with the type buildings to be contructed. They would have metal roofs with steel supports and concrete platforms at the proper dock heights for pickup trucks and tractor-trailers. The auction and buyers' sheds would be open.

Estimated costs for each option were projected for 1978-80 by using the average change in construction costs during the period 1973-77 as measured by the Construction Index, Survey of Current Business.

The facility layout drawings in the various options are schematic only. Any new plan by the association should take into consideration the topography, traffic flow, and other factors.

Option 1

Under this option the size of the current facilities was doubled. The length of all sheds were doubled and widened by 10 feet (appendix A, figure 3). The directors thought they needed more shed space to attract more buyers and increase competition.

Also, increasing the size of the auction shed would accommodate more growers' trucks and decrease the time spent waiting in line at the auction. The 10 acres would also eliminate traffic congestion.

This option was the most costly and would involve about $702,981 by 1980 (table 5).

Option 2

This option would double the length of the auction shed and widen it by 10 feet, leave the buyers' sheds the same length but widen them by 10 feet; and lengthen the storage shed and office 40 feet and widen it by 10 feet (appendix A, figure 4).

This would enable the auction shed to accommodate a greater number of trucks and reduce growers' waiting time.

Buyers' sheds would be widened to provide buyers more space to assemble and load their purchases. This would not allow space for new buyers.

The storage shed and office would be lengthened by 40 feet and widened by 10 feet.

Facilities under this option would cost an estimated $382,439 in 1978 and if constructed in 1980 would cost an estimated $440,510 (table 5).

Option 3

Under this option all facilities would be reconstructed on the new location at their present size (appendix A, figure 5).

This would eliminate the current congestion of growers' trucks as there would be adequate space for location of the facilities.

The facilities could be expanded if increased volume warrants.

This plan would cost the least. Facilities under this plan would cost an estimated $273,077 in 1978 and if constructed in 1980 would cost an estimated $312,974 (table 5).

Repayment Ability

To determine the repayment ability of the association, the net savings were estimated for the period 1978-1980 (table 6).

Depreciation for each year was added since this is not a cash outlay.

Since the association will operate as an exempt cooperative after the current audit, a 20 percent patronage refund on net savings is subtracted for each year.

The net figure indicates funds available to service the new facility.

Table 5--Estimated construction costs; three size options, Monticello Pink Tomato Growers, Inc. 1978

Size Options	Year 1/		
	1978	1979	1980
Option 1			
Buildings	$574,507	$620,410	$669,981
Land	33,000	33,000	33,000
Total	607,507	653,410	702,981
Option 2			
Buildings	349,439	377,359	407,510
Land	33,000	33,000	33,000
Total	382,439	410,359	440,510
Option 3			
Buildings	240,077	259,259	279,974
Land	33,000	33,000	33,000
Total	273,077	292,259	312,974

1/ Estimated costs for 1978-80 projected is the average change in construction costs during 1973-77, as measured by the construction index, Survey of Current Business.

For each option, a hypothetical Farmers Home Administration (FmHA) guaranteed loan was assumed for 90 percent of the contruction costs including 10 acres of land at 10 percent interest for 30 years. Interest and principal payments were computed for each option for 1978-80 (table 6). A second computation was made assuming that a lender would allow principal and interest payments to be amortized over a 30 year period (table 7).

Also, in the case of a hypothetical FmHA guaranteed loan the lender must pay FmHA a guarantee fee amounting to 1 percent of the loan. This would be a one-time payment when the guarantee is issued and is nonrefundable. The fee may be passed on to the borrower. Therefore, the guarantee fee is computed for each option for each year and included in the total payments.

Option 1

It is obvious that this option should not be considered at the present time. Even if construction were postponed until 1980, facility service costs would exceed repayment ability by $61,642 (table 6). If the payments were amortized over the 30-year period, costs would exceed repayment ability by $44,400 (table 7).

Option 2

This option should not be considered at the present time either as facility service costs would exceed repayment ability by $27,784 in 1980 (table 6). Amortized payments would still exceed repayment ability by $16,979 in 1980 (table 7).

Option 3

Even this option, which is the least desirable from the viewpoint of the directors, would prove quite costly at the present time. Facility service costs would exceed repayment ability by $11,332 in 1980 (table 6). Amortized payments would exceed repayment ability by $3,655 in 1980 (table 7).

Table 6--Estimated repayment ability, three facility size options, Monticello Pink Tomato Growers, Inc. 1978-80

Item	Year		
	1978	1979	1980
		Dollars	
Repayable ability			
Net savings	9,473	19,775	32,415
Depreciation	3,110	3,110	3,110
Total	12,583	22,885	35,525
Application of funds (use)			
Patronage refund (20% cash)	1,895	3,955	6,483
Funds available to service new facility	10,688	18,930	29,042
Size Option 1/			
Option 1			
Principal repayment	18,225	19,602	21,089
Interest payment	54,676	58,807	63,268
FmHA guarantee fee 2/	5,468	5,881	6,327
Total	78,369	84,290	90,684
Excess of repayment ability over facility service costs	(67,681)	(65,360)	(61,642)
Option 2			
Principal repayment	11,473	12,311	13,215
Interest payment	34,420	36,932	39,646
FmHA guarantee fee 2/	3,442	3,693	3,965
Total	49,335	52,936	56,826
Excess of repayment ability over facility service costs	(38,647)	(34,006)	(27,784)
Option 3			
Principal repayment	8,192	8,768	9,389
Interest payment	24,577	26,303	28,168
FmHA guarantee fee 2/	2,458	2,630	2,817
Total	35,227	37,701	40,374
Excess of repayment ability over facility service costs	(24,539)	(18,771)	(11,332)

1/ Principal and interest payment were computed for each option for the years 1978, 1979, and 1980 based on a 30-year FmHA guaranteed loan of 90 percent of the estimated construction costs including land at 10 percent interest (table 5).

2/ This fee is 1 percent of the loan amount and is paid by the lender to the Farmers Home Administration when the loan note guarantee is issued. The fee may be passed on to the borrower.

Table 7--Estimated repayment ability, three facility size options, Monticello Pink Tomato Growers, Inc. 1978-80

Item	Year		
	1978	1979	1980
		Dollars	
Repayable ability			
Net savings	9,473	19,775	32,415
Depreciation	3,110	3,110	3,110
Total	12,583	22,885	35,525
Application of funds (use)			
Patronage refund (20% cash)	1,895	3,955	6,483
Funds available to service new facility	10,688	18,930	29,042
Size Option 1/			
Option 1			
Amortized (principal & interest) payment	58,000	62,382	67,115
FmHA guarantee fee 2/	5,468	5,881	6,327
Total	63,468	68,263	73,442
Excess of repayment ability over service costs	(52,780	(49,333)	(44,400)
Option 2			
Amortized (principal & interest) payment	36,512	39,178	42,056
FmHA guarantee fee 2/	3,442	3,693	3,965
Total	39,954	42,871	46,021
Excess of repayment ability over facility service costs	(29,266)	(23,941)	(16,979)
Option 3			
Amortized (principal & interest) payment	26,071	27,903	29,880
FmHA guarantee fee 2/	2,458	2,630	2,817
Total	28,529	30,533	32,697
Excess of repayment ability over facility service costs	(17,841)	(11,603)	(3,655)

1/ Principal and interest payments amortized at $106.08 per $1,000 for each option for the years 1978, 1979, and 1980 based on a 30-year FmHA guaranteed loan of 90 percent of the estimated construction costs including land at 10 percent interest (table 5).
2/ This fee is 1 percent of the loan amount and is paid by the lender to the Farmers Home Administration when the loan note guarantee is issued. The fee may be passed on to the borrower.

SUMMARY AND RECOMMENDATIONS

There appears to be a strong desire on the part of the Monticello board of directors to expand, relocate, and rebuild its auction facilities. There are sound reasons why this course is desirable.

1. The facilities are on leased land. The lease option will expire at the end of the 1980 operating season. Further, the cost of the lease will be adjusted yearly by the cost of living index.

2. Expanding the buyers' facilities under options 1 and 2 will help attract new buyers and increase competition.

3. Expanding auction facilities will save time for growers.

4. Relocating west of Monticello will eliminate trips through the downtown area with loaded pickup trucks.

5. Relocating on larger acreage will eliminate congestion caused by the 200 pickup trucks arriving daily.

Despite the many sound reasons why the association should expand and relocate its marketing facilities, this course of action does not appear feasible at the present time. The repayment ability of the association does not appear to be sufficient to support facility service costs even when principal and interest costs were amortized over a 30 year period in any of the three options examined in this study. Also, it must be noted that the principal and interest payments cited were minimum costs because an ideal loan at a low rate of interest was assumed.

In order to borrow funds directors will need to convince potential lenders that growers either have substantial equity in the association, or are willing to put up the necessary equity. The directors need to determine if growers are willing to contribute equity capital to the association to finance the expansion of facilities. This will serve to test the growers' commitment to the association.

After discussing this situation further the directors could select a plan or plans under which growers would put up the equity capital. If there are 250 growers with an average of 2 acres each, this would be a total of 500 acres. The method selected might be on a per acre basis such as $100 per acre or a retain based on per box sold through the auction.

Even though the cost of the lease will be adjusted by the consumer price index yearly, it appears reasonable when compared with the cost of servicing a new facility. Projections indicate that by 1980 the lease would probably not exceed $4,000.

It appears desirable to renew the lease through the 1980 season. During this period, directors have an opportunity to locate a desirable site for the new facilities. They are now considering an option on 20 acres of land that could be purchased for $60,000 plus an additional $6,000 for right-of-way. They could sell 10 and build on the other 10 when the lease expires.

Also, the directors hired a fulltime manager for the first time last year. Prior to 1977, they had only parttime management. Since a manager's salary is a major expense, remaining at the present facilities until 1980 will give the manager an opportunity to build up volume and improve services. Part of the fulltime manager's responsibility is to visit terminal markets and promote the association's tomatoes. Also, the auditors are recommending a new bookkeeping system. This should provide the directors with more accurate information on operations. More membership interest will probably be created after the association is operating as an exempt cooperative and is declaring patronage refunds.

The directors did not think that growers at the present time would be willing to contribute equity capital for new facilities although the staff member visited a few who indicated that they might be willing. By remaining at the present location, directors will have more time to determine member attitudes toward this important item.

They could conduct a survey to see how growers feel about contributing. Any decision to expand could then be made with greater assurance of grower support.

Also, grower retains could be used to build up grower equity during the intervening period. This seems especially important since recent taxes imposed on the association because it did not operate as a tax exempt cooperative depleted retained earnings by some $20,000.

At the present, it appears that the asssociation's repayment ability would not be sufficient to support building costs for option 3 in 1980. This option was the least desirable option since the present facilities would be rebuilt on a new location at their present size.

It is possible that by 1980 a fulltime manager may have increased membership and volume to the point where the repayment ability might support rebuilding the present facilities.

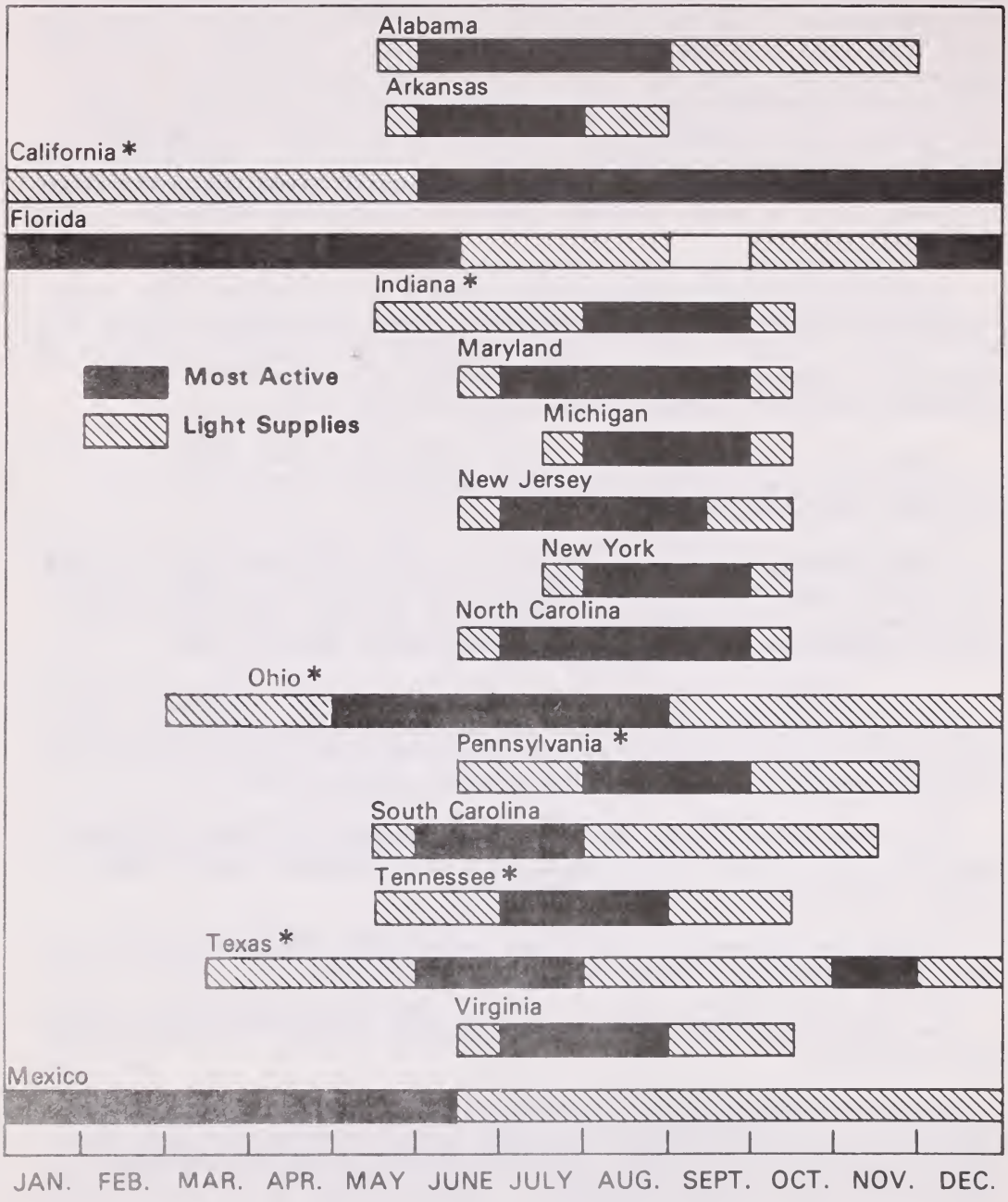
During the intervening period the board might consider alternatives other than expanding or rebuilding their facilities.

One might be a merger with another auction association that already has facilities.

A second might be an alternative method of selling. There is the possibility of selling directly through a sales manager and this might require different facilities. Also, many small fruit and vegetable associations sell through brokers.

A third alternative is joining with other grower groups in the area and establishing a joint sales agency. The agency would have considerable volume and could sell direct to chain store buyers or buyers in terminal markets.

Appendix A, figure 1--Fresh Tomatoes: Supply Sources By Months

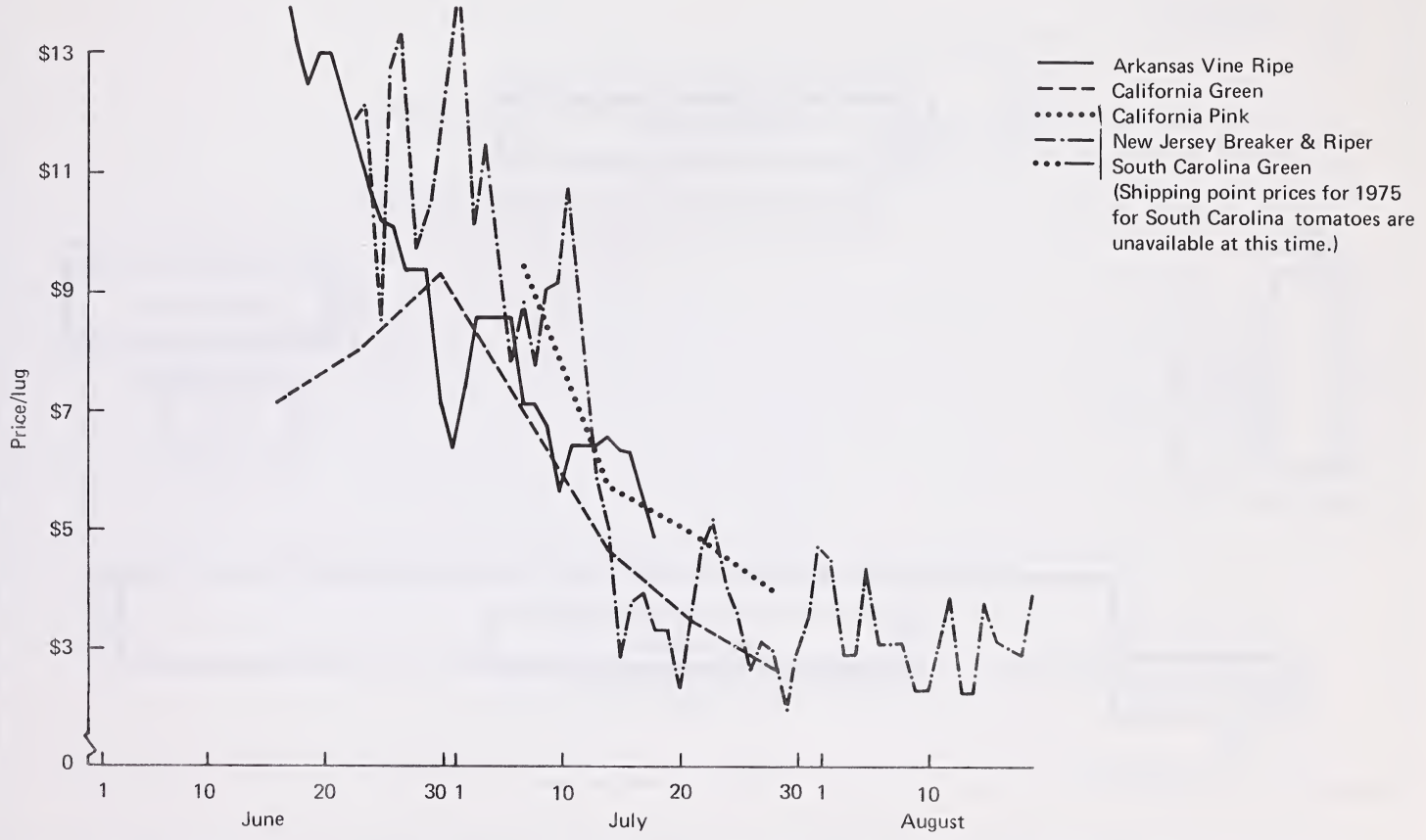


*INCLUDES SPRING AND FALL GREENHOUSE PRODUCTION.

SOURCE: FRESH FRUIT AND VEGETABLE UNLOAD TOTALS, AGRICULTURAL MARKETING SERVICE, USDA.

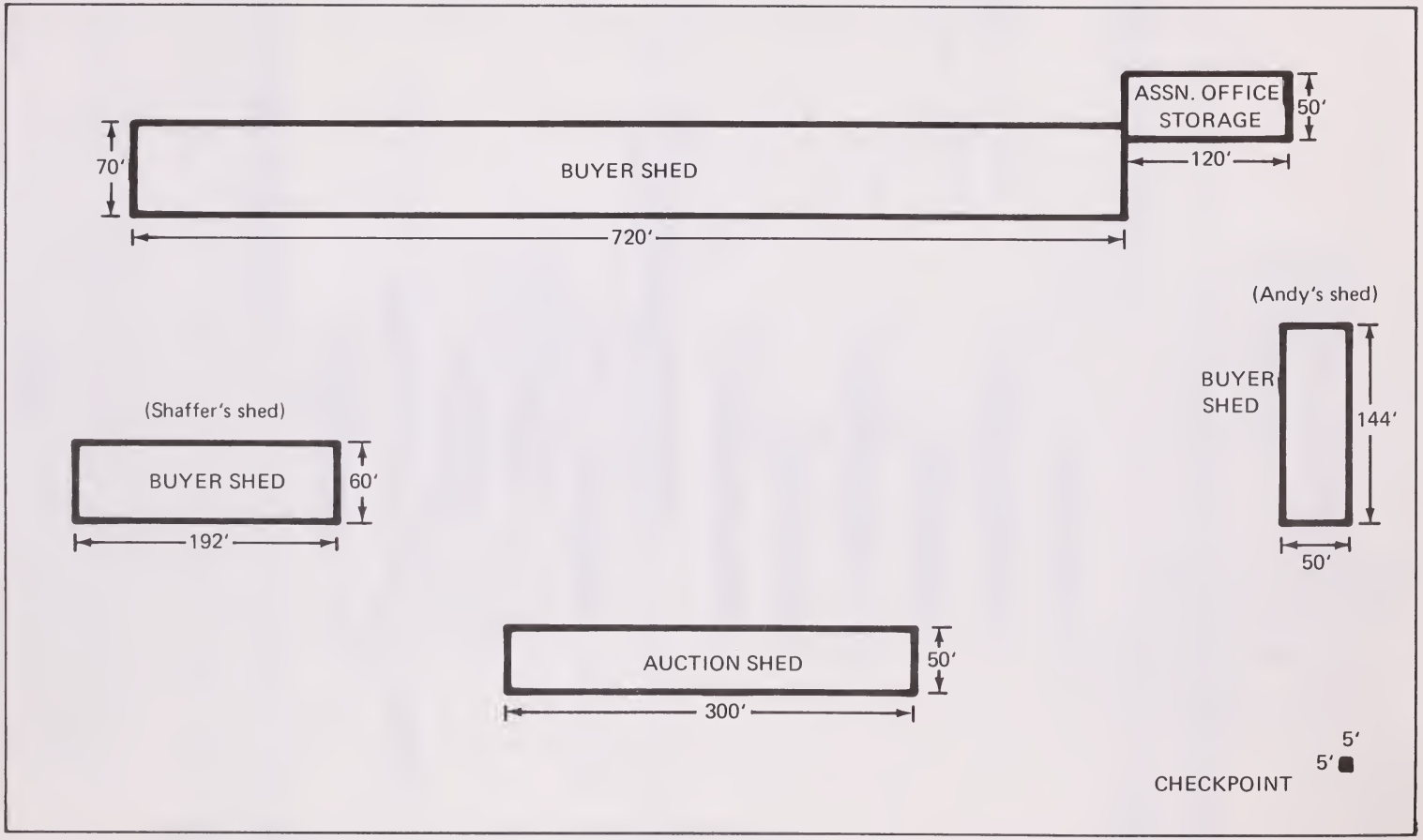
Reproduced from James V. Fahey, *How Fresh Tomatoes are Marketed.* Marketing Bulletin No. 59, AMS, USDA. Oct. 1976. p. 6

Appendix A, figure 2--Prices Paid for Fresh Market Tomatoes in Arkansas, California, New Jersey, and South Carolina, by Month and Day, June, July, and August, 1975



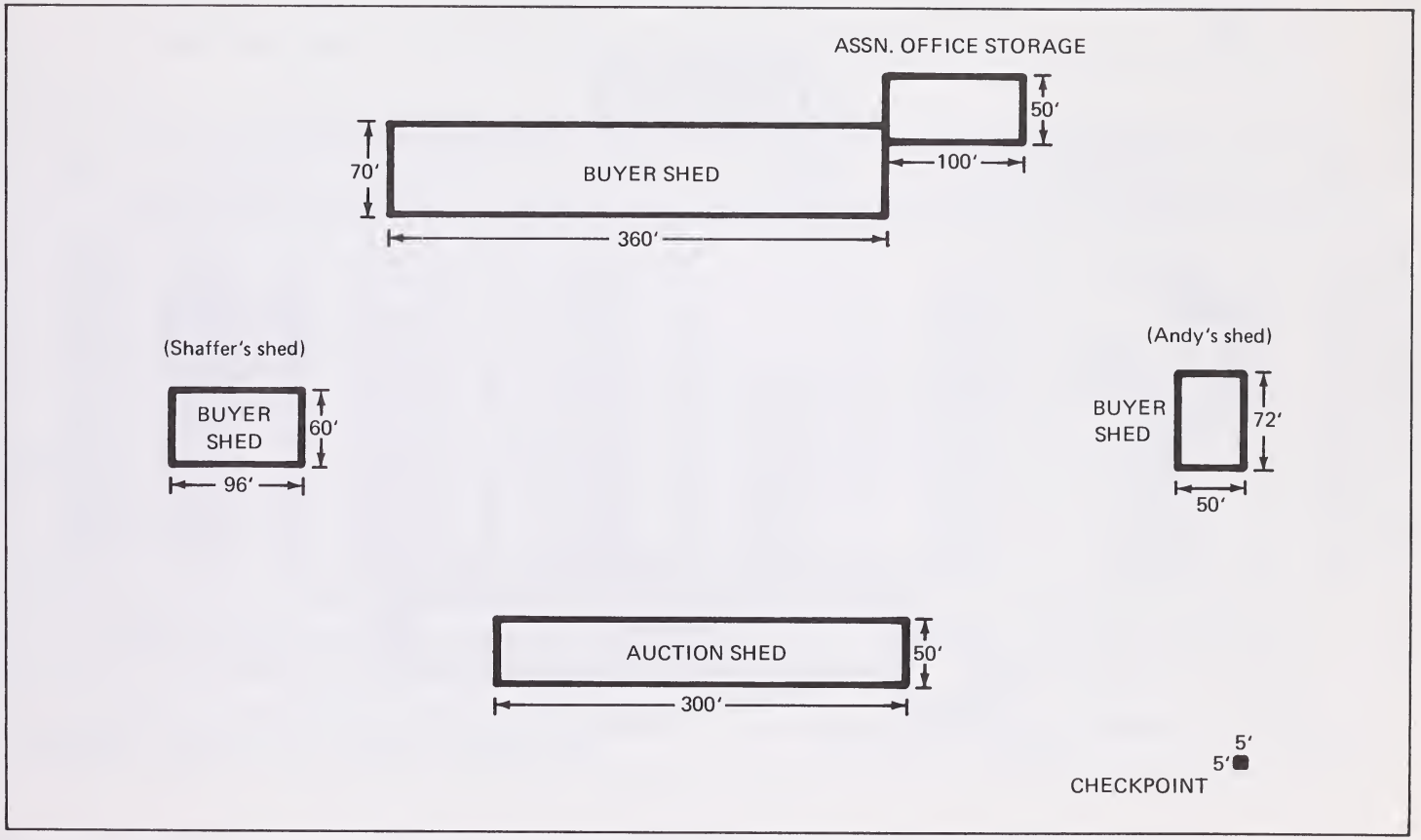
Reproduced from Carter Price and Roy E. Lambert. *Tomato Marketing in Southeastern Arkansas.* Univ. Ark. Agr. Exp. Sta. MP-153 Dec. 1975 p. 16.

Appendix A, figure 3--Option 1[1] facility layout, Monticello Pink Tomato Growers, Inc.



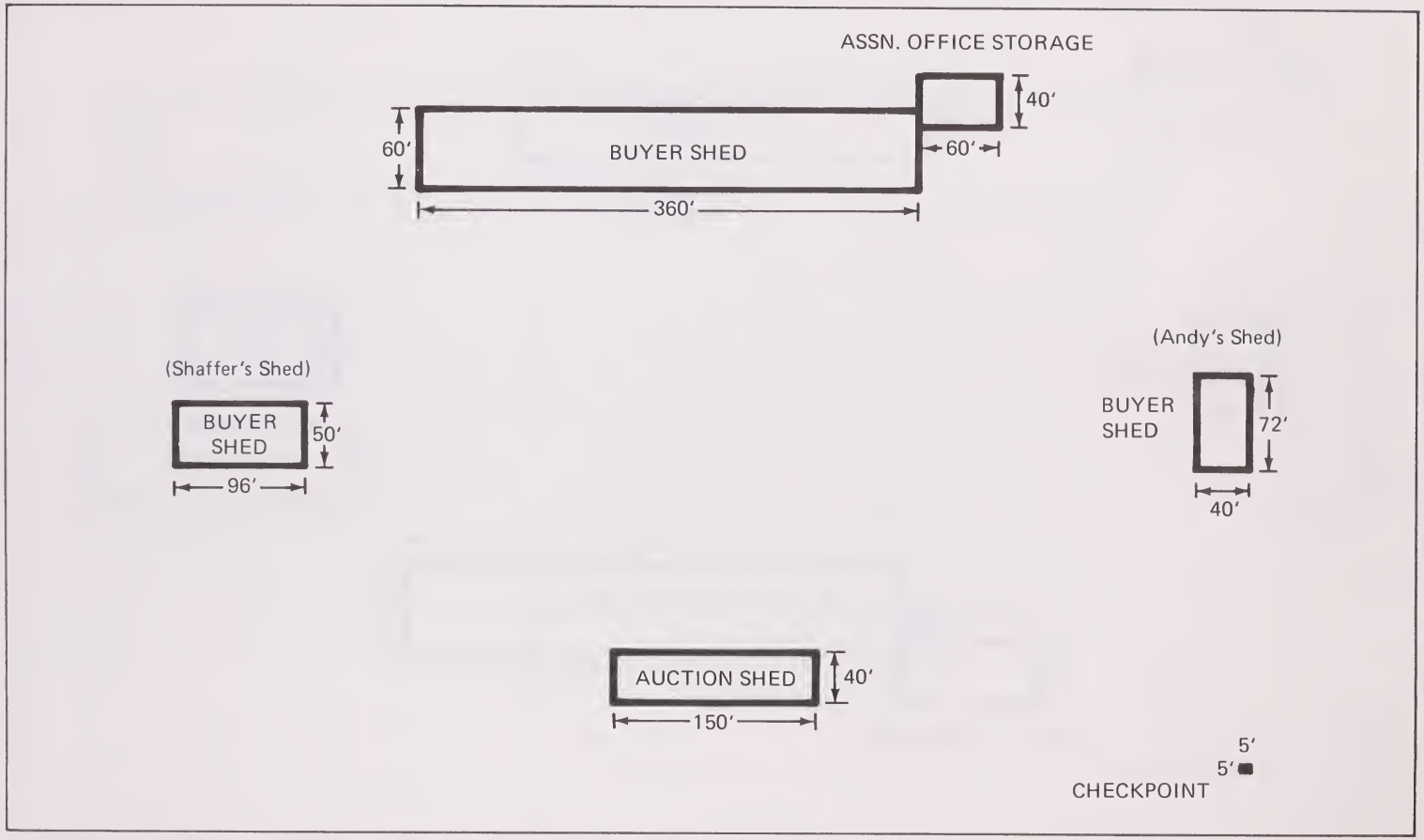
[1] Double the length of present facilities and widen each by 10 feet and locate on 10 acres of land.

Appendix A, figure 4--Option 2[1] facility layout, Monticello Pink Tomato Growers, Inc.



[1] Double the length of auction shed and widen by 10 feet; leave buyers sheds same length but widen by 10 feet; lengthen storage shed and office by 40 feet and widen by 10 feet; and locate on 10 acres of land.

Appendix A, figure 5--Option 3[1] facility layout, (same as present layout), Monticello Pink Tomato Growers, Inc.



[1] Reproduce all facilities at their current size and locate on 10 acres of land.

Appendix B, table 1--Structural changes in Southeast Arkansas tomato marketing activity

Year	Grower auction markets						Direct buyer-broker markets						Total Number of lugs
	Hermitage		Monticello		Warren		Grower-packers		Broker packers: Warren		Broker packers: Hermitage		
	# of lugs	%	# of lugs	%	# of lugs	%	# of lugs	%	# of lugs	%	# of lugs	%	
1965	500,000	70	120,000	17	75,000	10	--	--	--	--	20,000	3	715,000
1966	530,014	62	178,425	21	55,100	7	--	--	68,955	8	20,000	2	852,494
1967	752,784	62	226,454	19	163,654	13	--	--	75,000	6	--	--	1,217,892
1968	568,849	59	160,000	17	185,000	19	--	--	50,000	5	--	--	963,849
1969	611,884	63	147,931	15	178,782	19	--	--	29,605	3	--	--	968,202
1970	526,490	57	107,529	12	128,630	14	30,000	3	72,635	8	53,000	6	918,284
1971	630,000	50	180,000	14	149,601	12	95,000	8	122,935	10	80,000	6	1,257,536
1972	594,804	39	277,583	18	219,184	15	125,000	8	137,333	9	160,000	11	1,513,904
1/ 1973	576,660	55	174,000	16	135,346	13	69,939	7	69,350	7	22,000	2	1,047,295
1974	848,912	52	290,000	18	240,000	15	100,000	6	109,400	7	36,000	2	1,624,312
1975	658,000	53	190,000	15	172,000	14	90,000	7	76,000	6	45,000	4	1,231,000
1976	924,403	53	283,000	16	194,900	11	120,000	7	126,000	7	99,597	6	1,747,900
2/ 1977	757,000	50	263,000	17	170,000	11	70,000	5	103,000	7	160,000	10	1,523,000

1/ 1965-73 reproduced from Carter Price, Structural Changes in Fresh Tomato Markets in Southeast Arkansas, Arkansas Farm Research, March-April 1974, p. 15.

2/ 1974-77 reproduced from Carter Price, Professor, Department of Agricultural Economics, University of Arkansas, Fayetteville, Arkansas, August 1978.

Appendix B, Table 2 .. Prices: Tomato Harvest 1976, Bradley and Drew Counties, Arkansas

DATE	U.S. NO. 1 (GRADE)	U.S. COMB. (GRADE)	SHIPMENTS (C/L EQUIV.) 2/	TOTAL TO DATE (1976)
	Price per 20 lb. lug 1/			
JUNE				
14	$10.70-11.20	$9.00-9.40	26	26
15	10.70-11.20	9.40-9.80	13	39
16	10.60-11.20	8.00-9.80	10	49
17	9.50-9.80	6.60-8.20	15	64
18			15	79
19	8.30-9.00	7.00-7.10	13	92
21	8.70-9.40	7.20-7.80	19	111
22	8.10-8.60	6.60-7.20	13	124
23	8.20-8.70	6.90-7.50	14	138
24	8.20-8.80	6.60-7.20	14	152
25			16	168
26			21	189
27	6.50-6.90	5.60-6.00	14	203
28	5.40-5.60	4.40-4.70	39	242
29	4.90-5.40	3.00-3.60	25	267
30	4.50-4.90	3.40-4.50	26	293
JULY				
1	5.00-5.20	3.10-3.40	25	318
2			29	347
3			31	378
4			11	389
5	4.00-4.50	3.50-4.00	44	433
6	3.00-3.50	2.20-2.70	40	473
7	3.30-3.80	2.10-2.40	30	503
8	3.70-4.00	2.40-2.50	27	530
9			24	554
10	4.70-5.00	3.00-3.40	24	578
11	4.70-5.00	3.00-3.40	7	585
12	4.40-5.10	3.30-3.80	34	619
13	4.20-4.40	3.00-3.10	20	639
14	4.00-3.60	3.20-3.60	24	663
15	3.10-3.80	2.40-2.60	21	684
16			17	701
17	2.80-3.00	2.20-2.40	12	713
19	3.00-3.30	2.40-2.70	11	724
20	2.80-3.20	2.30-2.50	5	729
21	3.00-3.40	2.40-2.60	5	734

1/ Columns 2 and 3 are mostly prices.
2/ One carlot equivalent equals 2,000 20 lb. lugs.

Reproduced from Federal-State Market News Service, Little Rock, Arkansas, Memo. Material. August 2, 1976.

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